MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Goodwill. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. Our impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. Components are defined as operations for which discrete financial information is available and reviewed by segment management. The ICG operating segment is made up of two reporting units: the flash memory reporting unit and the ICG reporting unit. All of the ICG operating segment goodwill is included in the ICG reporting unit. Our review process uses the income method to estimate the reporting unit's fair value and is based on a discounted future cash flow approach that uses the following reporting unit estimates: revenue, based on assumed market segment growth rates and Intel's assumed market segment share; estimated costs; and appropriate discount rates based on the reporting units' weighted average cost of capital as determined by considering the observable weighted average cost of capital of comparable companies. Our estimates of market segment growth, our market segment share and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our routine long-range planning process. The same estimates are also used in planning for our long-term manufacturing and assembly and test capacity needs as part of our capital budgeting process and for both long-term and short-term business planning and forecasting. We test the reasonableness of the inputs and outcomes of our discounted cash flow analysis against available comparable market data. In determining the carrying value of the reporting unit, we must include an allocation of our manufacturing and assembly and test assets because of the interchangeable nature of our manufacturing and assembly and test capacity. This allocation is based on each reporting unit's relative percentage utilization of our manufacturing and assembly and test assets. During the fourth quarter of 2004, we completed our most recent review and determined that the fair value of the ICG reporting unit was in excess of its carrying value; therefore, goodwill was not impaired. Our review of goodwill in 2003 resulted in a $611 million non-cash impairment charge related to the then-existing Wireless Communications and Computing Group reporting unit. A substantial majority of our remaining recorded goodwill is related to the ICG reporting unit. The estimates we used in our most recent annual review for the ICG reporting unit assume that we will gain market segment share in the future and that the communications business will experience a gradual recovery and return to growth from the current trends. Prior to the combination of our communications-related businesses, our consumer electronics business, which was previously part of our former ICG operating segment, was moved to our Intel Architecture business. Based on the estimated fair value of the consumer electronics business relative to the former ICG reporting unit, goodwill of $466 million was transferred to our Intel Architecture business. In January 2005, we announced a planned reorganization of our business groups that will change the operating segments where the goodwill resides as well as the reporting units that are used to evaluate goodwill for impairment.

Non-Marketable Equity Securities. Under our Intel Capital program, we typically invest in non-marketable equity securities of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies whose products or technologies may directly support an Intel product or initiative. At December 25, 2004, the carrying value of our portfolio of strategic investments in non-marketable equity securities, excluding equity derivatives, totaled $507 million ($665 million at December 27, 2003).

Investments in non-marketable equity securities are inherently risky, and a number of these companies are likely to fail. Their success (or lack thereof) is dependent on product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on their future prospects, they may not be able to raise additional funds when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and the investments would likely become impaired. In the current equity market environment, while the availability of additional funding from venture capital sources has improved, the companies' ability to take advantage of liquidity events, such as initial public offerings, mergers and private sales, remains constrained.

We review all of our investments quarterly for indicators of impairment; however, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the investment. The indicators that we use to identify those events or circumstances include (a) the investee's revenue and earnings trends relative to predefined milestones and overall business prospects, (b) the technological feasibility of the investee's products and technologies, (c) the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes, (d) factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios and the rate at which the investee is using its cash, and (e) the investee's receipt of additional funding at a lower valuation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case we write the investment down to its impaired value. When an investee is not considered viable from a financial or technological point of view, we write down the entire investment since we consider the estimated fair market value to be nominal. If an investee obtains additional funding at a valuation lower than our carrying amount or requires a new round of equity funding to stay in operation and the new funding does not appear imminent, we presume that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise. Impairments of investments in our portfolio, primarily impairments of non-marketable equity securities, were approximately $117 million in 2004 ($319 million in 2003 and $524 million in 2002).

Inventory. The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products within specific time horizons, generally six months or less. The estimates of future demand that we use in the valuation of inventory are the basis for our published revenue forecasts, which are also consistent with our short-term manufacturing plans. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to write down additional inventory, which would have a negative impact on our gross margin.

Long-Lived Assets. We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset grouping to our estimate of the related total future net cash flows. If an asset grouping's carrying value is not recoverable through the related cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the asset grouping's carrying amount and its fair value, based on the best information available, including market prices or discounted cash flow analysis.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, and there are sufficient cash flows to support the carrying value of the assets, we accelerate the rate of depreciation charges in order to fully depreciate the assets over their new shorter useful lives.

Income Taxes. We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions, such as the tax benefit for export sales, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that a substantial majority of the deferred tax assets recorded on our balance sheet will ultimately be recovered. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be. For a discussion of current tax matters, see "Note 10: Provision for Taxes" and "Note 18: Contingencies" in Part II, Item 8 of this Form 10-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations

Overview

In 2004, we experienced another year of double-digit growth in annual revenue and gross margin dollars. Our Intel Architecture business contributed most of this growth, largely from higher unit sales of microprocessors. The Intel Architecture business continues to represent a large percentage of our business, accounting for 85% of our 2004 consolidated net revenue. Within ICG, we saw 28% growth in revenue, mostly driven by higher unit sales of our flash memory products. In 2004, we also ramped the production of our 90-nanometer process technology on 300-millimeter (mm) wafers, and exited the year with the majority of our processor shipments to the computing industry based on this technology. We continue to see strength in both our emerging and mature markets. For 2004, we increased the operating profit in our Intel Architecture business by 17% and reduced the losses slightly in our communications business. In addition, our business continued to generate significant cash, and we were able to use $7.5 billion to buy back our stock and pay $1.0 billion in dividends while maintaining our strong financial position.

In 2005, we are planning for further growth in both annual revenue and gross margin dollars, with higher unit sales for microprocessors. However, we are also expecting higher manufacturing start-up costs related to the ramp of our 65-nanometer process technology, particularly in the first half of 2005. Growth in sales and profitability depends on our ability to successfully ramp new products, and to obtain continuing benefits from the productive use of our manufacturing assets. We expect to introduce our first dual-core processors in 2005, as we continue to focus on enabling more capabilities, performance and flexibility for users beyond processor speed. We also plan to design our products around entire platforms. In line with this platform focus, in January 2005, we announced a reorganization to align our business groups across our major platform initiatives. Because the reporting period for this Form 10-K is as of December 25, 2004, the results of operations for all comparative periods, including the comparison of the 2003 to 2002 results, are presented under the organizational structure that existed as of December 25, 2004.

The following table sets forth certain consolidated statements of income data as a percentage of net revenue for the periods indicated:

	2004	2003	2002
Net revenue	100.0%	100.0%	100.0%
Cost of sales	42.3%	43.3%	50.2%
Gross margin	57.7%	56.7%	49.8%
Research and development	14.0%	14.5%	15.1%
Marketing, general and administrative	13.6%	14.2%	16.2%
Impairment of goodwill	—	2.0%	—
Amortization and impairment of acquisition-related intangibles and costs	0.5%	1.0%	2.0%
Purchased in-process research and development	—	—	0.1%
Operating income	29.6%	25.0%	16.4%

The following table sets forth information on our geographic regions for the periods indicated:

(Dollars in Millions)	2004 Revenue	2004 % of Total	2003 Revenue	2003 % of Total	2002 Revenue	2002 % of Total
Americas	$ 7,965	23%	$ 8,403	28%	$ 8,648	32%
Asia-Pacific	15,380	45%	12,161	40%	10,073	38%
Europe	7,755	23%	6,868	23%	6,139	23%
Japan	3,109	9%	2,709	9%	1,904	7%
Total	$34,209	100%	$30,141	100%	$26,764	100%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our net revenue for 2004 was $34.2 billion, an increase of $4.1 billion, or 13.5%, compared to 2003. This increase was primarily due to higher net revenue from sales of microprocessors in our Intel Architecture business accompanied by higher net revenue for ICG.

Our Asia-Pacific region's revenue made up the largest portion of our total revenue during 2004 and increased 26%, reflecting both growth in local consumption and movement of more of the production for our customers' PC supply chain to Asia. This movement in the supply chain negatively affected the Americas region, with a decrease in revenue of 5% in 2004 compared to 2003. Japan revenue increased 15%, and the Europe region's revenue increased 13% in 2004 compared to 2003.

Overall gross margin dollars were $19.7 billion, an increase of $2.7 billion, or 16%, compared to 2003. Our overall gross margin percentage increased to 57.7% in 2004 from 56.7% in 2003. The gross margin percentage for the Intel Architecture business was higher than in 2003, and the gross margin percentage in our communications business was lower than in 2003. See "Business Outlook" on page 40 of this section for a discussion of gross margin expectations.

Our net revenue for 2003 was $30.1 billion, an increase of 13% compared to 2002. This increase in net revenue was primarily from our Intel Architecture business, which had increased sales of microprocessors and chipsets. This increase was partially offset by lower net revenue for ICG.

In 2003, our Asia-Pacific region's revenue made up the largest portion of our total revenue and increased 21% compared to 2002, reflecting growth in local consumption and movement of more of the production for our customers' PC supply chain to Asia. Revenue in Europe improved, increasing 12%, in 2003 compared to 2002. Japan experienced substantial improvement with increased revenue of 42%, primarily driven by retail sales as well as higher notebook exports by Japanese manufacturers. Revenue from the Americas region continued to decrease as a percent of our total revenue and declined 3% in 2003 compared to 2002. In 2003, we continued to experience growth in emerging markets in Asia and Europe, and began to see some evidence of higher technology infrastructure spending in mature markets in Europe and the U.S.

Our overall gross margin percentage increased to 56.7% for 2003 from 49.8% in 2002. Improved gross margin within the Intel Architecture business as well as a shift in the total company revenue mix to the higher margin Intel Architecture business contributed to our improved total gross margin. Improvement in the Intel Architecture gross margin was partially offset by a decline in the gross margin percentage for ICG.

Intel Architecture Business

The revenue and operating income for the Intel Architecture operating segment for the three years ended December 25, 2004 were as follows:

(In Millions)	2004	2003	2002
Microprocessor revenue	$24,463	$21,937	$18,676
Chipset, motherboard and other revenue	4,704	4,241	3,671
Total revenue	$29,167	$26,178	$22,347
Operating income	$12,067	$10,354	$ 6,498

Revenue for the Intel Architecture operating segment increased by $3.0 billion, or 11%, in 2004 compared to 2003. Revenue from sales of microprocessors increased 12% while revenue from sales of chipsets and motherboards increased 11%. The increase in Intel Architecture revenue was primarily due to higher unit sales for microprocessors in the computing market segment. Sales of microprocessors designed for the desktop, mobile and server market segments all increased substantially in 2004. Consistent with this increase in sales of microprocessors, we also experienced higher unit sales of our chipsets and motherboards in 2004 compared to 2003. We ramped our 90-nanometer process technology in 2004, and exited the year with the majority of our microprocessors shipped being manufactured on this technology.

Operating income increased to $12.1 billion in 2004 compared to $10.4 billion in 2003. The 17% increase was primarily due to the impact of higher revenue and lower unit costs for microprocessors, as well as approximately $160 million of lower manufacturing start-up costs. These increases in operating income were partially offset by higher operating expenses and a $162 million charge in Q1 2004 relating to a settlement agreement with Intergraph Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

For 2003, revenue for the Intel Architecture operating segment increased by $3.8 billion, or 17%, compared to 2002. Revenue from sales of microprocessors increased 17% while revenue from sales of chipsets and motherboards increased 16%. The increase in Intel Architecture revenue was primarily due to significantly higher unit sales and to a lesser extent due to a slightly higher average selling price for microprocessors, as well as significantly higher unit sales of chipsets in 2003. During 2003, we rapidly ramped the Intel Centrino mobile technology and the Pentium M processor for mobile computers. We also saw increased sales of Pentium 4 processors with HT Technology and higher sales of Intel Xeon processors in the server market segment.

Operating income increased by $3.9 billion, or 59%, in 2003 compared to 2002. The increase was primarily due to the impact of higher revenue, lower unit costs for microprocessors and chipsets, and charges for under-utilized factory capacity that were lower than in 2002 by approximately $150 million. These improvements were partially offset by approximately $390 million of higher start-up costs in 2003 related to the ramp of 90-nanometer technology on 300mm wafer manufacturing.

Intel Communications Group

The revenue and operating loss for the ICG operating segment for the three years ended December 25, 2004 were as follows:

(In Millions)	2004	2003	2002
Revenue	$5,027	$3,928	$4,288
Operating loss	$ (791)	$ (824)	$ (817)

Revenue increased by $1.1 billion, or 28%, in 2004 compared to 2003, primarily due to higher revenue from higher unit sales of flash memory products, embedded processing components and wireless connectivity products. Revenue from flash memory products increased to $2.3 billion in 2004 from $1.6 billion in 2003.

The operating loss decreased to $791 million in 2004 from a loss of $824 million in 2003. Contributing to the lower operating loss were higher revenue, as well as approximately $100 million from lower inventory write-offs for flash memory products due to improved demand and sales of flash memory product inventory that had been previously written down. These improvements were partially offset by higher unit costs for flash memory products as we sold higher density products, as well as the negative impact of reducing the carrying value of ending inventory to lower current replacement costs. In addition, higher startup costs in 2004 of approximately $160 million partially offset the decrease in operating loss.

For 2003, revenue decreased by $360 million, or 8%, compared to 2002. The decrease was primarily due to lower unit sales of flash memory products. Revenue from flash memory products decreased to $1.6 billion in 2003 from $2.1 billion in 2002. In 2003, revenue for flash memory products was negatively affected by lost business as a result of the pricing strategy on certain products. This decrease was partially offset by increases in revenue for wireless connectivity products, increases in revenue from sales of application processors for data-enabled cellular phones and handheld computing devices, and increases in revenue from sales of embedded processing components.

The operating loss remained relatively flat in 2003 at $824 million, compared to $817 million in 2002. Negative impacts to the operating results included lower revenue and higher inventory write-offs for flash memory products, and a mix shift to lower margin wired connectivity products. These negative impacts were offset primarily by a decrease in operating expenses of $160 million in 2003 as we continued our efforts to streamline operations and refocus on our core strategic areas.

Operating Expenses

Operating expenses for the three years ended December 25, 2004 were as follows:

(In Millions)	2004	2003	2002
Research and development	$4,778	$4,360	$4,034
Marketing, general and administrative	$4,659	$4,278	$4,334
Impairment of goodwill	$ —	$ 617	$ —
Amortization and impairment of acquisition-related intangibles and costs	$ 179	$ 301	$ 548
Purchased in-process research and development	$ —	$ 5	$ 20

Research and development spending increased $418 million, or 10%, in 2004 compared to 2003, and increased $326 million, or 8%, in 2003 compared to 2002. This increase in 2004 compared to 2003 was primarily due to higher expenses related to development for manufacturing process technologies, including the 65-nanometer process on 300mm wafers, and higher expenses for product development programs in the Intel Architecture business, as well as higher profit-dependent compensation expenses. The increase in 2003 compared to 2002 was primarily due to higher expenses for product development programs in the Intel Architecture business and higher spending on the development of manufacturing process technologies, including the 65-nanometer process technology, as well as higher profit-dependent compensation expenses.

Marketing, general and administrative expenses increased $381 million, or 9%, in 2004 compared to 2003. The increase in 2004 was primarily due to higher cooperative advertising expenses (as a result of higher revenue in our Intel Architecture business and because our customers used a higher percentage of their available Intel Inside® program funds) and increased profit-dependent compensation expenses. In addition, the increase was due to higher marketing expenses from additional marketing programs and increased advertising expenses. Marketing, general and administrative expenses were flat in 2003 compared to 2002. In 2003, we lowered our discretionary spending and other expenses as we reduced headcount and refocused on core strategic areas. This decrease in expenses was offset by higher marketing expenses due to the launch of the Intel Centrino mobile technology brand in 2003; increased profit-dependent compensation expenses; and higher expenses related to the Intel Inside cooperative advertising program, primarily due to higher microprocessor revenue.

Research and development along with marketing, general and administrative expenses were approximately 28% of net revenue in 2004, 29% of net revenue in 2003 and 31% of net revenue in 2002.

Amortization of acquisition-related intangibles and costs was $179 million in 2004, $301 million in 2003 and $548 million in 2002. The decreased amortization each year compared to the previous year was primarily due to a portion of the intangibles related to prior acquisitions becoming fully amortized.

During the fourth quarter of 2004, we completed our annual impairment review for goodwill and determined that the fair value of the ICG reporting unit was in excess of its carrying value; therefore goodwill was not impaired. In our 2003 goodwill impairment review, we found indicators of impairment for the then-existing WCCG reporting unit. At that time, the WCCG business, comprising primarily flash memory products and cellular baseband chipsets, had not performed as management had expected. In the fourth quarter of 2003, it became apparent that WCCG was expected to grow more slowly than previously projected. A slower-than-expected rollout of products and slower-than-expected customer acceptance of our products in the baseband chipset business, as well as a delay in the transition to next-generation phone networks, had pushed out the forecasts for sales of products for high-end data cell phones. These factors resulted in lower growth expectations for the reporting unit and triggered a $611 million charge for impairment of goodwill. Also during 2003, we recorded a $6 million charge for impairment of the goodwill related to one of our seed businesses. Seed businesses support the company's strategic initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Losses on Equity Securities, Interest and Other, and Taxes

Losses on equity securities, net, interest and other, net and taxes for the three years ended December 25, 2004 were as follows:

(In Millions)	2004	2003	2002
Losses on equity securities, net	$ (2)	$ (283)	$ (372)
Interest and other, net	$ 289	$ 192	$ 194
Provision for taxes	$2,901	$1,801	$1,087

Losses on equity securities and certain equity derivatives for 2004 were $2 million compared to $283 million for 2003. The improvement was primarily driven by lower impairment charges on investments, particularly on non-marketable equity securities (approximately $117 million for 2004 and $319 million for 2003). The decrease in the impairment charges in 2004 reflected the decrease in the total carrying amount of the non-marketable equity investment portfolio over the past couple of years. The net loss for 2003 also included mark-to-market losses on certain equity securities and equity derivatives offset by gains on equity transactions completed in 2003.

Losses on equity securities and certain equity derivatives for 2003 decreased to $283 million compared to $372 million for 2002. The lower net loss for 2003 was primarily due to lower impairment charges. For 2002, the impairment charges of $524 million were partially offset by net gains of approximately $57 million related to equity securities designated as trading assets and $110 million of net gains on related equity derivatives. The $57 million in net gains included a gain of approximately $120 million, resulting from the designation of formerly restricted equity investments as trading assets as they became marketable. The cumulative difference between their cost and fair market value at the time they became marketable was recorded as a gain in 2002.

Interest and other, net increased to $289 million in 2004 compared to $192 million in 2003, reflecting higher interest income as a result of higher average investment balances and higher interest rates. Interest and other, net for 2004 also included approximately $60 million of gains associated with terminating financing arrangements for manufacturing facilities and equipment in Ireland.

Our effective income tax rate was 27.8% in 2004, 24.2% in 2003 and 25.9% in 2002. The increase in the rate for 2004 was primarily due to a higher amount of tax benefits related to divestitures during 2003 partially offset by an increase in the benefit for export sales. The tax rate for 2004 included a $195 million reduction to the tax provision, primarily from additional benefits for export sales along with higher than anticipated state tax benefits for divestitures, as well as the reversal of previously accrued taxes of $62 million, primarily related to the closing of a state income tax audit. The rate for 2003 included a $758 million reduction to the tax provision related to divestitures, partially offset by the non-deductible goodwill impairment charge.

The decrease in the effective tax rate in 2003 compared to 2002 was primarily attributed to the tax benefits of $758 million related to divestitures that closed during 2003. Although the pre-tax losses on the divestitures for financial statement purposes were not significant, the company was able to recognize tax losses because the tax basis in the stock of the companies sold exceeded the book basis. The impact of these benefits was partially offset by the non-deductible goodwill impairment charge recorded in 2003 and a higher percentage of profits in higher tax jurisdictions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Financial Condition

Our financial condition remains strong. At December 25, 2004, cash, short-term investments and fixed income debt instruments included in trading assets totaled $16.8 billion, up from $15.9 billion at December 27, 2003. At December 25, 2004, total short-term and long-term debt was $904 million and represented approximately 2% of stockholders' equity. At December 27, 2003, total debt was $1.2 billion and represented approximately 3% of stockholders' equity.

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. For 2004, cash provided by operating activities was $13.1 billion, compared to $11.5 billion in 2003 and $9.1 billion in 2002. In 2004, the majority of the increase in cash provided by operating activities was due to higher net income. Working capital sources of cash included increases in income taxes payable, accrued compensation and benefits, and accounts payable. The increase in income taxes payable was primarily due to the timing of refunds and higher earnings in 2004 compared to 2003, partially offset by higher estimated tax payments made for 2004. Accrued compensation and benefits increased, primarily due to higher accruals related to employee bonuses. Accounts payable was higher, primarily due to the timing of capital expenditures. Accounts receivable was relatively flat in 2004 compared to 2003 and increased in 2003 over 2002 levels, primarily due to higher revenue in 2003. Despite an increase in sales, the days' sales outstanding decreased to 34 days at December 2004 compared to 36 days at December 2003 and 34 days at December 2002. The decrease in 2004 was due to a higher proportion of sales occurring at the beginning of the fourth quarter. For 2004, our three largest customers accounted for approximately 42% of net revenue, with one of these customers accounting for approximately 19% of revenue and another customer accounting for approximately 16%. For 2003, our three largest customers accounted for approximately 42% of net revenue (38% of net revenue for 2002). Additionally, these three largest customers accounted for approximately 45% of net accounts receivable at December 25, 2004 (approximately 43% at December 27, 2003 and 39% at December 28, 2002). Inventories were relatively flat in 2004 compared to 2003 levels but represented increases over 2002, primarily due to ramping of new products at that time. During 2003, working capital uses of cash also included a decrease in income taxes payable.

Investing cash flows consist primarily of capital expenditures and the proceeds of investments sold and payment for investments acquired. We used $5.0 billion in net cash for investing activities during 2004, compared to $7.1 billion during 2003 and $5.8 billion during 2002. The higher cash used in investing activities in 2003 resulted from higher net purchases of available-for-sale investments due to improved corporate credit profiles that facilitated a slight shift in our portfolio of investments in debt securities to longer term maturities during that year. Capital expenditures were $3.8 billion, $3.7 billion and $4.7 billion in 2004, 2003 and 2002, respectively, reflecting a lower investment in capital equipment and construction, primarily for additional microprocessor manufacturing capacity in recent years. Capital spending for 2005 is expected to be between $4.9 billion and $5.3 billion, primarily driven by investments in 300mm, 65-nanometer production equipment.

Financing cash flows consist primarily of repurchases and retirement of common stock and payment of dividends to stockholders. We used $7.7 billion in net cash for financing activities in 2004 compared to $3.9 billion in 2003 and 2002. During 2004, our Board of Directors authorized the repurchase of an additional 500 million shares of common stock under the company's ongoing stock repurchase program, and in 2004 we purchased 301 million shares of common stock for $7.5 billion (176 million shares for $4.0 billion in 2003 and 183 million shares for $4.0 billion in 2002). At December 25, 2004, approximately 614 million shares remained available for repurchase under existing repurchase authorizations. Payment of dividends was $1.0 billion in 2004 ($524 million in 2003 and $533 million in 2002) due to an increase in the quarterly cash dividend from $0.02 per share to $0.04 per share effective beginning in the first quarter of 2004. On February 2, 2005, our Board of Directors declared a cash dividend of $0.08 per common share for the first quarter of 2005. The dividend is payable on March 1, 2005 to stockholders of record on February 7, 2005. Financing sources of cash during 2004 were primarily $894 million in proceeds from the sale of shares pursuant to employee equity incentive plans ($967 million in 2003 and $681 million in 2002).

Another potential source of liquidity is authorized borrowings, including commercial paper, of $3.0 billion. Maximum borrowings under our commercial paper program during 2004 were approximately $550 million, although no commercial paper was outstanding at the end of the period. We also maintain the ability to issue an aggregate of approximately $1.4 billion in debt, equity and other securities under U.S. Securities and Exchange Commission (SEC) shelf registration statements.

We believe that we have the financial resources needed to meet business requirements for the next 12 months, including capital expenditures for the expansion or upgrading of worldwide manufacturing and assembly and test capacity, working capital requirements, the dividend program, potential stock repurchases and potential future acquisitions or strategic investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Contractual Obligations

The following table summarizes our significant contractual obligations at December 25, 2004, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at December 25, 2004:

(In Millions)	Payments Due by Period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Operating lease obligations	$ 563	$ 124	$ 138	$ 79	$ 222
Capital purchase obligations[1]	2,752	2,532	220	—	—
Other purchase obligations and commitments[2]	687	264	406	17	—
Long-term debt obligations	736	33	80	171	452
Total[3]	$ 4,738	$ 2,953	$ 844	$ 267	$ 674

[1] *Capital purchase obligations represent commitments for construction or purchase of property, plant and equipment. They were not recorded as liabilities on our balance sheet as of December 25, 2004, as we had not yet received the related goods or taken title to the property. Capital purchase obligations increased from $1.5 billion at December 27, 2003 to $2.8 billion at December 25, 2004, primarily due to purchase obligations for capital equipment relating to our next-generation 65-nanometer process technology.*

[2] *Other purchase obligations and commitments include payments due under various types of licenses and non-contingent funding obligations. Funding obligations include, for example, agreements to fund various projects with other companies, such as co-marketing and co-development initiatives.*

[3] *Total does not include contractual obligations recorded on the balance sheet as current liabilities or certain purchase obligations, as discussed below.*

Contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding on Intel and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current manufacturing needs and are fulfilled by our vendors within short time horizons. In addition, some of our purchase orders represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities and set prices that exceed our expected requirements for three months. Therefore, agreements for the purchase of raw materials and other goods and services are not included in the table above. Agreements for outsourced services generally contain clauses allowing for cancellation without significant penalty, and are therefore not included in the table above.

Contractual obligations that are contingent upon the achievement of certain milestones are not included in the table above. These obligations include contingent funding obligations, milestone-based equity investment funding, and acquisition-related deferred cash compensation contingent upon future employment. These arrangements are not considered contractual obligations until the milestone is met by the third party. As of December 25, 2004, assuming all future milestones were met, additional required payments would be approximately $23 million.

The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations. Amounts disclosed as contingent or milestone-based obligations are dependent on the achievement of the milestones or the occurrence of the contingent events and can vary significantly.

Off-Balance-Sheet Arrangements

As of December 25, 2004, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Employee Equity Incentive Plans

Our stock option program is a broad-based, long-term retention program that is intended to attract and retain talented employees and align stockholder and employee interests. In May 2004, stockholder approval was obtained for the 2004 Equity Incentive Plan (the 2004 Plan). Under the 2004 Plan, 240 million shares of common stock were made available for issuance during the two-year period ending June 30, 2006. Under the 2004 Plan, options to purchase shares may be granted to all employees and non-employee directors. We may also use other types of equity incentive awards, such as restricted stock, stock units and stock appreciation rights. The 2004 Plan also allows for performance-based vesting for equity incentive awards. We presently expect to request stockholder approval at our May 2005 Annual Stockholders' Meeting to extend the term of the 2004 Plan by one year, to June 30, 2007, and make additional common shares available for issuance as equity awards to employees and non-employee directors during this period.

We have a goal to keep the potential incremental dilution related to our option program to a long-term average of less than 2% annually. The dilution percentage is calculated using the new option grants for the year, net of options cancelled due to employees leaving the company and options expired, divided by the total outstanding shares at the beginning of the year.

Options granted to employees, including officers, and non-employee directors from 2000 through 2004 are summarized as follows:

(Shares In Millions)	2004	2003	2002	2001	2000
Total options granted[1]	115	110	174	238	163
Less options cancelled[1]	(32)	(40)	(44)	(47)	(31)
Net options granted	83	70	130	191	132
Net grants as % of outstanding shares[2]	1.3%	1.1%	1.9%	2.8%	2.0%
Grants to listed officers[3] as % of total options granted	1.1%	2.4%	1.7%	0.8%	0.4%
Grants to listed officers[3] as % of outstanding shares[2]	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Cumulative options held by listed officers[3] as % of total options outstanding	2.1%	2.1%	2.1%	2.0%	2.4%

[1] *Excluding options assumed in connection with acquisitions.*

[2] *Outstanding shares as of the beginning of each period.*

[3] *For 2004, "listed officers" included our Chief Executive Officer and each of the five other most highly compensated executive officers serving at the end of 2004. One of these listed officers retired in January 2005. For 2000 through 2003, "listed officers" included our Chief Executive Officer and each of the four other most highly compensated executive officers serving at the end of the years presented.*

In accordance with a policy established by the Compensation Committee of the Board of Directors, total options granted to listed officers may not exceed 5% of total options granted in any year. During 2004, options granted to listed officers amounted to 1.1% of the grants made to all employees. All stock option grants to executive officers are made after a review by, and with the approval of, the Compensation Committee. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on The NASDAQ Stock Market*.

For additional information regarding the equity incentive plans and the activity for the past three years, see "Note 11: Employee Equity Incentive Plans" in Part II, Item 8 of this Form 10-K. Information regarding our equity incentive plans should be read in conjunction with the information appearing under the heading "Report of the Compensation Committee on Executive Compensation" in our 2005 Proxy Statement, which is incorporated by reference.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

In-the-money and out-of-the-money† option information as of December 25, 2004 was as follows:

	Exercisable		Unexercisable		Total	
(Shares in Millions)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
In-the-money	240.5	$ 16.01	162.6	$ 19.35	403.1	$ 17.36
Out-of-the-money	157.0	$ 35.81	323.8	$ 32.73	480.8	$ 33.73
Total options outstanding	**397.5**	**$ 23.83**	**486.4**	**$ 28.25**	**883.9**	**$ 26.26**

† *Out-of-the-money options have an exercise price equal to or above $23.54, the closing price of Intel stock at the end of fiscal 2004, as reported on The NASDAQ Stock Market*.*

Options granted to listed officers as a group during 2004 were as follows:

Number of Securities Underlying Option Grants	Percent of Total Options Granted to Employees	Exercise Price Per Share	Expiration Date	Potential Realizable Values at Assumed Annual Rates of Stock Price Appreciation for Option Term† 5%	10%
1,210,000	1.1%	$27.00	2014	$20,542,200	$52,057,900

† *Represents gains that could accrue for these options, assuming that the market price of Intel common stock appreciates over a period of 10 years at annualized rates of 5% and 10% from the date of grant. If the stock price does not increase above the exercise price, the realized value from these options would be zero.*

Option exercises during 2004 and option values for listed officers as a group as of December 25, 2004 were as follows:

Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at December 25, 2004		Values of Unexercised In-the-Money Options at December 25, 2004†	
		Exercisable	Unexercisable	Exercisable	Unexercisable
1,604,000	$31,688,800	7,894,100	10,525,500	$62,308,200	$23,134,800

† *These amounts represent the difference between the exercise price and $23.54, the closing price of Intel stock at the end of fiscal 2004, for all in-the-money options held by listed officers.*

Information as of December 25, 2004 regarding equity compensation plans approved and not approved by stockholders is summarized in the following table (shares in millions):

Plan Category	(A) Number of Shares to Be Issued Upon Exercise of Outstanding Options	(B) Weighted Average Exercise Price of Outstanding Options	(C) Number of Shares Remaining Available for Future Issuance Under Equity Incentive Plans (Excluding Shares Reflected in Column A)
Equity incentive plans approved by stockholders	154.6	$18.73	287.9[1]
Equity incentive plans not approved by stockholders[2]	722.8	$27.97	—
Total	**877.4**[3]	**$26.34**	**287.9**

[1] *Includes 67.5 million shares available under our 1976 Employee Stock Participation Plan.*

[2] *Consists of shares available under our 1997 Stock Option Plan.*

[3] *Total excludes 6.5 million shares issuable under outstanding options, with a weighted average exercise price of $16.26, originally granted under plans we assumed in connection with acquisitions. The 1997 Stock Option Plan was terminated as to future grants when the 2004 Equity Incentive Plan was approved by the stockholders in May 2004.*

1997 Stock Option Plan

The 1997 Stock Option Plan (the 1997 Plan) provided for the grant of stock options to employees other than officers and directors. This plan, which was not approved by stockholders, was terminated as to future grants when the 2004 Plan was approved by the stockholders in May 2004. The 1997 Plan is administered by the Compensation Committee of the Board of Directors, which has the power to determine matters relating to outstanding option awards under the plan, including conditions of vesting and exercisability. Options granted under the 1997 Plan expire no later than 10 years from the grant date. Options granted under this Plan generally vest within five years, with some options granted in 2003 and 2004 vesting in increments over four or five years from the date of grant and certain grants to key employees having delayed vesting generally beginning six years from the date of grant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Business Outlook

In 2005, we are planning for continued growth in annual revenue and increasing gross margin dollars. We also expect to see continued growth in the total number of computers using our microprocessors. Further, we expect continued benefit from the productive use of our 90-nanometer process technology on 300mm wafers. At the same time, we will continue to invest in our next generation 65-nanometer process technology. Revenue for ICG is largely dependent on our continuing to secure design wins for our customers' new and existing products, on supplying the products for these design wins and on OEMs taking the product designs to production. Demand for our flash memory products is uncertain in the highly competitive cellular handset market segment. Revenue growth for our flash memory products is largely dependent on customer demand for higher density flash memory and continued user adoption of new leading-edge cellular handsets. The statements below do not include any impact related to the expensing of stock options according to Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment." If we had applied SFAS No. 123R to our results for the year ended December 25, 2004, our gross margin percentage would have been lower by approximately one percentage point. In addition, the expensing of stock options would increase operating expenses, which include both R&D expenses and marketing, general and administrative expenses, and would affect the tax rate. See "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K.

Our financial results are substantially dependent on sales of microprocessors and related components by the Intel Architecture operating segment. Revenue is partly a function of the mix of types and performance capabilities of microprocessors sold, as well as the mix of related chipsets and motherboards, all of which are difficult to forecast. Because of the wide price differences among desktop, mobile and server microprocessors, the mix of types and performance levels of microprocessors sold affects the average selling price that we will realize and has a large impact on our revenue and gross margin. Microprocessor revenue is also dependent on the availability of other parts of the system platform, including chipsets, motherboards, operating system software and application software. Revenue is also affected by our sales of other semiconductor and non-semiconductor products, and is subject to the impact of economic conditions in various geographic regions.

Our gross margin expectation for 2005 is 58% plus or minus a few points. The 58% midpoint is approximately flat compared to our 2004 gross margin of 57.7%. In the first half of 2005, higher unit volumes for microprocessors and higher factory utilization are expected to be offset by higher start-up costs related to the ramp of our 65-nanometer process technology. In the second half of 2005, these start-up costs should decline, and if our business progresses according to typical seasonal patterns, we expect our gross margin percentage to be higher than in the first half of 2005.

Our gross margin varies primarily with revenue levels, which are dependent on unit volumes and prices, as well as the mix of types and performance levels of processors sold, and the mix of microprocessors, related chipsets and motherboards, and other semiconductor and non-semiconductor products. Variability of other factors will also continue to affect cost of sales and the gross margin percentage, including unit costs and yield issues associated with production at our factories, timing and execution of the production ramp, excess of manufacturing or assembly and test capacity, the reusability of factory equipment, impairment of manufacturing or assembly and test assets, excess inventory, inventory obsolescence and variations in inventory valuation.

We have significantly expanded our semiconductor manufacturing and assembly and test capacity over the last few years, and we continue to plan capacity based on the assumed continued success of our overall strategy and the acceptance of our products in specific market segments. We currently expect that capital spending will be between $4.9 billion and $5.3 billion in 2005, compared to $3.8 billion in 2004. The midpoint of this range, $5.1 billion, is significantly higher than in 2004. Most of the projected increase will be spent to ramp capacity on our 65-nanometer process technology in 300mm factories. In fact, 90% of our fab equipment spending is anticipated to be on 65-nanometer process technology. This capital-spending plan is dependent on expectations regarding production efficiencies and delivery times of various machinery and equipment, and construction schedules. If the demand for our products does not grow and continue to move toward higher performance products in the various market segments, revenue and gross margin would be adversely affected, and manufacturing and/or assembly and test capacity would be under-utilized, and the rate of capital spending could be reduced. We could be required to record an impairment of our manufacturing or assembly and test equipment and/or facilities, or factory planning decisions may cause us to record accelerated depreciation. However, in the long term, revenue and gross margin may also be affected if we do not add capacity fast enough to meet market demand.

Depreciation for 2005 is expected to be approximately $4.4 billion, plus or minus $100 million, compared to $4.6 billion in 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our industry is characterized by very short product life cycles, and our continued success is dependent on technological advancement, including developing and implementing new processes and strategic products for specific market segments. Because we consider it imperative to maintain a strong research and development program, spending for research and development in 2005 is expected to increase to approximately $5.2 billion from $4.8 billion in 2004.

Based on acquisitions completed through February 16, 2005, we expect amortization of acquisition-related intangibles and costs to be approximately $120 million in 2005.

At the end of 2004, we held non-marketable equity securities with a carrying value of $507 million. A number of these companies are likely to fail. Their success (or lack thereof) is dependent upon product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on their future prospects, they may not be able to raise additional financings when needed, or they may receive lower valuations with less favorable investment terms than in previous financings, and the investments would likely become impaired. However, we are not able to determine at the present time which specific investments are likely to be impaired in the future, or the extent or timing of individual impairments.

Our non-marketable equity securities are part of the Intel Capital program. The program seeks to invest in companies and businesses that can succeed and have an impact on their market segment. However, these types of investments involve a great deal of risk, and there can be no assurance that any specific company, whether at an early or mature stage, or somewhere in between, will grow or will be successful. Consequently, we could lose all or part of our investment. When the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment. However, our investments in non-marketable equity securities are not liquid, and there can be no assurance that we will be able to dispose of these investments on favorable terms or at all.

We currently expect our tax rate to be approximately 31% for 2005. The estimated effective tax rate is based on tax law in effect at December 25, 2004 and current expected income, and assumes that the company will continue to receive the tax benefit for export sales. See "Note 10: Provision for Taxes" and "Note 18: Contingencies" in Part II, Item 8 of this Form 10-K. The tax rate expectation for 2005 does not reflect the impact of any potential repatriation of earnings under the American Jobs Creation Act of 2004 (the Jobs Act), as we are currently reviewing the provisions of the Jobs Act. If we were to repatriate earnings, our tax expense would increase. The tax rate may also be affected by the closing of acquisitions or divestitures, the jurisdictions in which profits are determined to be earned and taxed, changes in estimates of credits and deductions, the resolution of issues arising from tax audits with various tax authorities, the finalization of various tax returns and changes in our ability to realize deferred tax assets.

We are currently a party to various legal proceedings and claims, including legal proceedings and claims related to taxes and to allegations of patent infringement. Management does not believe that the ultimate outcome of these legal proceedings and claims will have a material adverse effect on our financial position, cash flows or overall trends in results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages, invalidation of a patent or group of patents, additional taxes owed or, in cases where injunctive relief is sought, an injunction prohibiting Intel from selling one or more products. If an unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period or future periods. Management believes that, given our current liquidity and cash and investment balances, even an adverse judgment would not have a material impact on cash and investments or liquidity.

We operate globally, with sales offices and research and development as well as manufacturing and assembly and test facilities in many countries, and, as a result, we are subject to risks and factors associated with doing business outside the U.S. Global operations involve inherent risks that include currency controls and fluctuations, tariff and import regulations, and regulatory requirements that may limit our or our customers' ability to manufacture, assemble and test, design, develop or sell products in particular countries. If terrorist activity, armed conflict, civil or military unrest, or political instability occurs in the U.S., Israel or other locations, such events may disrupt manufacturing, assembly and test, logistics, security and communications, and could also result in reduced demand for our products. The impacts of major health concerns or possible infrastructure disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers, on Intel, its suppliers, customers or other third parties could also adversely affect our business and impact customer order patterns. Business continuity could also be affected if labor issues disrupt our transportation arrangements or those of our customers or suppliers. In addition, we may rely on a single or limited number of suppliers, or upon suppliers in a single country. On a worldwide basis, we regularly review our key infrastructure, systems, services and suppliers, both internally and externally, to seek to identify significant vulnerabilities as well as areas of potential business impact if a disruptive event were to occur. Once identified, we assess the risks, and as we consider it to be appropriate, we initiate actions intended to reduce the risks and their potential impact. However, there can be no assurance that we have identified all significant risks or that we can mitigate all identified risks with reasonable effort.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our future results of operations and the other forward-looking statements contained in this filing, including this MD&A, involve a number of risks and uncertainties—in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, market segment share and growth rate assumptions, future economic conditions and recovery in the communications businesses, revenue, pricing, gross margin and costs, capital spending, depreciation and amortization, research and development expenses, potential impairment of investments, the tax rate, and pending tax and legal proceedings. In addition to the various important factors discussed above, a number of other factors could cause actual results to differ materially from our expectations. Demand for our products, which impacts our revenue and gross margin percentage, is affected by business and economic conditions, as well as computing and communications industry trends and the development and timing of introduction of compelling software applications and operating systems that take advantage of the features of our products. Demand for our products is also affected by changes in customer order patterns, such as changes in the levels of inventory maintained by our customers and the timing of customer purchases. Intel operates in intensely competitive industries, and our revenue and gross margin could be affected by factors such as competing chip architectures and manufacturing technologies, competing software-compatible microprocessors, pricing pressures, actions taken by our competitors and other competitive factors, as well as market acceptance of our new products in specific market segments, the availability of sufficient inventory to meet demand and the availability of externally purchased components or materials. Our future revenue is also dependent on continuing technological advancement, including developing and implementing new processes and strategic products, as well as the timing of new product introductions, sustaining and growing new businesses, and integrating and operating any acquired businesses. Our results could also be affected by adverse effects associated with product defects and errata (deviations from published specifications), and by litigation or regulatory matters involving intellectual property or stockholder, consumer, antitrust and other issues.

We believe that we have the product offerings, facilities, personnel, and competitive and financial resources for continued business success, but future revenue, costs, gross margins and profits are all influenced by a number of factors, including those discussed above, all of which are inherently difficult to forecast.

Status of Business Outlook and Related Risk Factor Statements

We expect that our corporate representatives will from time to time meet privately with investors, investment analysts, the media and others, and may reiterate the forward-looking statements contained in the "Business Outlook" section and elsewhere in this Form 10-K, including any such statements that are incorporated by reference in this Form 10-K. At the same time, we will keep this Form 10-K and our then-current Business Outlook publicly available on our Investor Relations web site (www.intc.com). The public can continue to rely on the Business Outlook published on the web site as representing our current expectations on matters covered, unless we publish a notice stating otherwise. The statements in the Business Outlook and other forward-looking statements in this Form 10-K are subject to revision during the course of the year in our quarterly earnings releases and SEC filings, our Mid-Quarter Business Updates and at other times.

We intend to publish a Mid-Quarter Business Update on March 10, 2005. From the close of business on March 4, 2005 until publication of the Update, we will observe a "quiet period" during which the Business Outlook and other forward-looking statements first published in our earnings press release on January 11, 2005, as reiterated or updated as applicable, in this Form 10-K, should be considered historical, speaking as of prior to the quiet period only and not subject to update. During the quiet period, our representatives will not comment on the Business Outlook or our financial results or expectations.

A quiet period operating in similar fashion with regard to the Business Outlook and our Form 10-K will begin at the close of business on March 18, 2005 and will extend until the day that our next quarterly earnings release is published, presently scheduled for April 19, 2005. We typically have quiet periods twice each quarter, in advance of our Earnings Release and Mid-Quarter Business Update; however, the exact timing and duration of those routine quiet periods, and any others we utilize from time to time, may vary at our discretion.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in currency exchange rates, interest rates and marketable equity security prices. To mitigate these risks, we may utilize derivative financial instruments, among other strategies. We do not use derivative financial instruments for speculative purposes. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at December 25, 2004. Actual results may differ materially.

Currency Exchange Rates. We generally hedge currency risks of non-U.S.-dollar-denominated investments in debt securities with offsetting currency borrowings, currency forward contracts or currency interest rate swaps. Gains and losses on these non-U.S.-currency investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in negligible net exposure.

A substantial majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, we do enter into transactions in other currencies, primarily the Euro and certain other European and Asian currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, we have established balance sheet and forecasted transaction risk management programs. Currency forward contracts and currency options are generally utilized in these hedging programs. Our hedging programs reduce, but do not always entirely eliminate, the impact of currency exchange rate movements. We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. Such adverse changes, after taking into account hedges and offsetting positions, would have resulted in an adverse impact on income before taxes of less than $30 million and $10 million at the end of 2004 and 2003, respectively.

Interest Rates. The primary objective of our investments in debt securities is to preserve principal while maximizing yields, without significantly increasing risk. To achieve this objective, the returns on our investments in fixed rate debt securities are generally swapped to U.S. dollar LIBOR-based returns. We considered the historical volatility of the three-month LIBOR rate experienced in prior years and the duration of our investment portfolio, and determined that it was reasonably possible that an adverse change of 80 basis points (0.80%), approximately 31% of the rate at the end of 2004, could be experienced in the near term. A hypothetical 0.80% increase in interest rates, after taking into account hedges and offsetting positions, would have resulted in a decrease in the fair value of our investment securities of approximately $20 million and $10 million as of the end of 2004 and 2003, respectively.

Marketable Equity Security Prices. We have a portfolio of strategic equity investments that includes marketable strategic equity securities and derivative equity instruments such as warrants and options, as well as non-marketable equity investments. We invest in companies that develop software, hardware and other technologies or provide services supporting our technologies. This strategic investment program helps advance our overall goal to be the preeminent supplier of building blocks to the worldwide digital economy. Our current investment focus areas include enabling mobile wireless devices, helping to advance the digital home, enhancing the digital enterprise, advancing high-performance communications infrastructures and developing the next generation of silicon production technologies. Our focus areas tend to develop and change over time due to rapid advancements in the technology field.

Included in trading assets is a portfolio of marketable equity securities held to generate returns that generally offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. Due to the offset, these securities have been excluded from the following market price sensitivity analysis.

To the extent that our marketable portfolio of investments continues to have strategic value, we typically do not attempt to reduce or eliminate our market exposure. For those securities that we no longer consider strategic, we evaluate market and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk. As of December 25, 2004, the fair value of our portfolio of marketable equity investments and equity derivative instruments, including hedging positions, was $662 million.

To assess the market price sensitivity of our marketable portfolio, we analyzed the historical movements over the past several years of high-technology stock indices that we considered appropriate. However, our marketable portfolio is substantially concentrated in two companies, which will affect the marketable portfolio's price volatility. We currently have an investment in Micron Technology, Inc. with a fair value of approximately $400 million, or 60% of the total marketable portfolio value including equity derivative instruments at December 25, 2004. In addition, we have an investment in Elpida Memory, Inc. with a fair value of approximately $212 million, or 32% of the total marketable portfolio value including equity derivative instruments at December 25, 2004. Prior to Elpida's public offering, this investment was included in our non-marketable portfolio and therefore excluded from our 2003 market price sensitivity analysis. The investments in Micron and Elpida are part of our strategy to support the development and supply of Dynamic Random Access Memory (DRAM) products. Based on the analysis of the high-technology stock indices and the historical volatility of Micron's and Elpida's stock as of December 25, 2004, we estimated that it was reasonably possible that the prices of the stocks in our portfolio could experience a loss of 45% in the near term (55% as of the end of 2003).

Assuming a loss of 45% in market prices, and after reflecting the impact of hedges and offsetting positions, our portfolio could decrease in value by approximately $300 million, based on the value of the portfolio as of December 25, 2004. Assuming a loss of 55% in market prices, and after reflecting the impact of hedges and offsetting positions, our portfolio could decrease in value by approximately $290 million, based on the value of the portfolio as of December 27, 2003. The assumed loss percentage used in 2004 is lower than the assumed loss percentage used in 2003 due to the differences in the concentration of investments during each year. This estimate is not necessarily indicative of future performance, and actual results may differ materially.

Non-Marketable Equity Securities. Our strategic investments in non-marketable equity securities would also be affected by an adverse movement of equity market prices, although the impact cannot be directly quantified. Such a movement and the related underlying economic conditions would negatively affect the prospects of the companies we invest in, their ability to raise additional capital and the likelihood of our being able to realize our investments through liquidity events such as initial public offerings, mergers and private sales. These types of investments involve a great deal of risk, and there can be no assurance that any specific company will grow or become successful; consequently, we could lose all or part of our investment. At December 25, 2004, our strategic investments in non-marketable equity securities had a carrying amount of $507 million. No individual investment in our non-marketable portfolio was significant as of December 25, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Three Years Ended December 25, 2004 (In Millions—Except Per Share Amounts)	2004	2003	2002
Net revenue	**$34,209**	**$30,141**	**$26,764**
Cost of sales	14,463	13,047	13,446
Gross margin	**19,746**	**17,094**	**13,318**
Research and development	4,778	4,360	4,034
Marketing, general and administrative	4,659	4,278	4,334
Impairment of goodwill	—	617	—
Amortization and impairment of acquisition-related intangibles and costs	179	301	548
Purchased in-process research and development	—	5	20
Operating expenses	**9,616**	**9,561**	**8,936**
Operating income	**10,130**	**7,533**	**4,382**
Losses on equity securities, net	(2)	(283)	(372)
Interest and other, net	289	192	194
Income before taxes	**10,417**	**7,442**	**4,204**
Provision for taxes	2,901	1,801	1,087
Net income	**$ 7,516**	**$ 5,641**	**$ 3,117**
Basic earnings per common share	**$ 1.17**	**$ 0.86**	**$ 0.47**
Diluted earnings per common share	**$ 1.16**	**$ 0.85**	**$ 0.46**
Weighted average common shares outstanding	**6,400**	**6,527**	**6,651**
Weighted average common shares outstanding, assuming dilution	**6,494**	**6,621**	**6,759**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 25, 2004 and December 27, 2003 (In Millions—Except Par Value)	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 8,407	$ 7,971
Short-term investments	5,654	5,568
Trading assets	3,111	2,625
Accounts receivable, net of allowance for doubtful accounts of $43 ($55 in 2003)	2,999	2,960
Inventories	2,621	2,519
Deferred tax assets	979	969
Other current assets	287	270
Total current assets	**24,058**	**22,882**
Property, plant and equipment, net	**15,768**	**16,661**
Marketable strategic equity securities	**656**	**514**
Other long-term investments	**2,563**	**1,866**
Goodwill	**3,719**	**3,705**
Other assets	**1,379**	**1,515**
Total assets	**$48,143**	**$47,143**
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	$ 201	$ 224
Accounts payable	1,943	1,660
Accrued compensation and benefits	1,858	1,559
Accrued advertising	894	716
Deferred income on shipments to distributors	592	633
Other accrued liabilities	1,355	1,302
Income taxes payable	1,163	785
Total current liabilities	**8,006**	**6,879**
Long-term debt	**703**	**936**
Deferred tax liabilities	**855**	**1,482**
Commitments and contingencies (Notes 17 and 18)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 50 shares authorized; none issued	—	—
Common stock, $0.001 par value, 10,000 shares authorized; 6,253 issued and outstanding (6,487 in 2003) and capital in excess of par value	6,143	6,754
Acquisition-related unearned stock compensation	(4)	(20)
Accumulated other comprehensive income	152	96
Retained earnings	32,288	31,016
Total stockholders' equity	**38,579**	**37,846**
Total liabilities and stockholders' equity	**$48,143**	**$47,143**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Years Ended December 25, 2004
(In Millions)

	2004	2003	2002
Cash and cash equivalents, beginning of year	$ 7,971	$ 7,404	$ 7,970
Cash flows provided by (used for) operating activities:			
Net income	7,516	5,641	3,117
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,590	4,651	4,676
Impairment of goodwill	—	617	—
Amortization and impairment of intangibles and other acquisition-related costs	299	419	668
Purchased in-process research and development	—	5	20
Losses on equity securities, net	2	283	372
Net loss on retirements and impairments of property, plant and equipment	91	217	301
Deferred taxes	(207)	391	110
Tax benefit from employee equity incentive plans	344	216	270
Changes in assets and liabilities:			
Trading assets	(468)	(698)	(465)
Accounts receivable	(39)	(430)	30
Inventories	(101)	(245)	(26)
Accounts payable	283	116	(226)
Accrued compensation and benefits	295	276	107
Income taxes payable	378	(361)	175
Other assets and liabilities	136	417	—
Total adjustments	5,603	5,874	6,012
Net cash provided by operating activities	13,119	11,515	9,129
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(3,843)	(3,656)	(4,703)
Acquisitions, net of cash acquired	(53)	(61)	(57)
Purchases of available-for-sale investments	(16,618)	(11,662)	(6,309)
Maturities and sales of available-for-sale investments	15,633	8,488	5,634
Other investing activities	(151)	(199)	(330)
Net cash used for investing activities	(5,032)	(7,090)	(5,765)
Cash flows provided by (used for) financing activities:			
Increase (decrease) in short-term debt, net	24	(152)	(101)
Additions to long-term debt	—	—	55
Repayments and retirement of debt	(31)	(137)	(18)
Proceeds from sales of shares through employee equity incentive plans	894	967	681
Repurchase and retirement of common stock	(7,516)	(4,012)	(4,014)
Payment of dividends to stockholders	(1,022)	(524)	(533)
Net cash used for financing activities	(7,651)	(3,858)	(3,930)
Net increase (decrease) in cash and cash equivalents	436	567	(566)
Cash and cash equivalents, end of year	$ 8,407	$ 7,971	$ 7,404
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 52	$ 59	$ 66
Income taxes, net of refunds	$ 2,392	$ 1,567	$ 475

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Years Ended December 25, 2004 (In Millions—Except Per Share Amounts)	Common Stock and Capital in Excess of Par Value: Number of Shares	Common Stock and Capital in Excess of Par Value: Amount	Acquisition-Related Unearned Stock Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 29, 2001	**6,690**	**$ 8,833**	**$ (178)**	**$ 25**	**$ 27,150**	**$ 35,830**
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	3,117	3,117
Other comprehensive income	—	—	—	18	—	18
Total comprehensive income						3,135
Proceeds from sales of shares through employee equity incentive plans, tax benefit of $270 and other	68	951	—	—	—	951
Amortization of acquisition-related unearned stock compensation, net of adjustments	—	(16)	115	—	—	99
Repurchase and retirement of common stock	(183)	(2,127)	—	—	(1,887)	(4,014)
Cash dividends declared ($0.08 per share)	—	—	—	—	(533)	(533)
Balance at December 28, 2002	**6,575**	**7,641**	**(63)**	**43**	**27,847**	**35,468**
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	5,641	5,641
Other comprehensive income	—	—	—	53	—	53
Total comprehensive income						5,694
Proceeds from sales of shares through employee equity incentive plans, tax benefit of $216 and other	88	1,183	—	—	—	1,183
Amortization of acquisition-related unearned stock compensation, net of adjustments	—	(6)	43	—	—	37
Repurchase and retirement of common stock	(176)	(2,064)	—	—	(1,948)	(4,012)
Cash dividends declared ($0.08 per share)	—	—	—	—	(524)	(524)
Balance at December 27, 2003	**6,487**	**6,754**	**(20)**	**96**	**31,016**	**37,846**
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	7,516	7,516
Other comprehensive income	—	—	—	56	—	56
Total comprehensive income						7,572
Proceeds from sales of shares through employee equity incentive plans, tax benefit of $789 (including reclassification of $445 related to prior years) and other	67	1,683	—	—	—	1,683
Amortization of acquisition-related unearned stock compensation, net of adjustments	—	—	16	—	—	16
Repurchase and retirement of common stock	(301)	(2,294)	—	—	(5,222)	(7,516)
Cash dividends declared ($0.16 per share)	—	—	—	—	(1,022)	(1,022)
Balance at December 25, 2004	**6,253**	**$ 6,143**	**$ (4)**	**$ 152**	**$ 32,288**	**$ 38,579**

See accompanying notes.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

Intel Corporation has a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2004, a 52-week year, ended on December 25, 2004. Fiscal year 2003 was a 52-week year that ended on December 27, and fiscal year 2002, also a 52-week year, ended on December 28. The next 53-week year will end on December 31, 2005.

The consolidated financial statements include the accounts of Intel and its wholly owned subsidiaries. Intel is not involved with any variable interest entities, as defined by the Financial Accounting Standards Board (FASB) Interpretation No. 46, having a significant effect on the financial statements. Intercompany accounts and transactions have been eliminated. Partially owned, non-controlled equity affiliates are accounted for under the equity method. Accounts denominated in non-United States currencies have been remeasured using the United States (U.S.) dollar as the functional currency. Certain amounts reported in previous years have been reclassified to conform to the 2004 presentation. During 2004, the company reclassified $445 million from deferred tax liabilities to common stock and capital stock in excess of par value (see "Note 10: Provision for Taxes"). No amounts related to deferred tax liabilities were reclassified in the prior-period financial statements.

Note 2: Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most difficult and subjective judgments include the assessment of recoverability of property, plant, and equipment and goodwill; the valuation of non-marketable equity securities and inventory; and the recognition and measurement of income tax assets and liabilities. The actual results experienced by the company may differ from management's estimates.

Cash and Cash Equivalents

Highly liquid debt securities with insignificant interest rate risk and with original maturities from the date of purchase of three months or less are classified as cash and cash equivalents.

Investments

Trading Assets. Trading assets are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. The company may elect to classify a portion of its marketable debt securities as trading assets. For these debt instruments, gains or losses from changes in fair value due to interest rate and currency market fluctuations, offset by losses or gains on related derivatives, are included in interest and other, net. Also included in trading assets is a marketable equity portfolio held to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. Gains or losses from changes in fair value of these equity securities, offset by losses or gains on the related liabilities, are included in interest and other, net. The company also uses fixed income investments and derivative instruments to seek to offset the remaining portion of the changes in the compensation liabilities. In addition, a portion of the company's marketable equity securities may from time to time be classified as trading assets, if the company no longer deems the investments to be strategic in nature at the time of trading asset designation, and has the ability and intent to mitigate equity market risk through sale or the use of derivative instruments. For these marketable equity securities, gains or losses from changes in fair value, primarily offset by losses or gains on related derivative instruments, are included in gains (losses) on equity securities, net.

Available-for-Sale Investments. Investments designated as available-for-sale include marketable debt and equity securities. Investments that are designated as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. The cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of debt securities are recorded in interest and other, net. Realized gains or losses on the sale or exchange of equity securities and declines in value judged to be other than temporary are recorded in gains (losses) on equity securities, net. Marketable equity securities are presumed to be impaired if the fair value is less than the cost basis continuously for at least six months, absent evidence to the contrary.

Debt securities with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Debt securities with remaining maturities greater than one year are classified as long-term investments.

The company acquires certain equity investments for the promotion of business and strategic objectives, and to the extent that these investments continue to have strategic value, the company typically does not attempt to reduce or eliminate the inherent equity market risks through hedging activities. The marketable portion of these investments is included in marketable strategic equity securities.

Non-Marketable Equity Securities and Other Investments. Non-marketable equity securities and other investments are accounted for at historical cost or, if Intel has significant influence over the investee, using the equity method of accounting. Intel's proportionate share of income or losses from investments accounted for under the equity method, and any gain or loss on disposal, are recorded in interest and other, net. Non-marketable equity securities, equity-method investments and certain other investments are included in other assets. Cost-basis loan participation notes are classified as short-term investments or other long-term investments.

All of the company's investments are subject to a periodic impairment review; however, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the investment. The indicators Intel uses to identify those events and circumstances include the investee's revenue and earnings trends relative to predefined milestones and overall business prospects; the technological feasibility of the investee's products and technologies; the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes; factors about the investee's ability to remain in business, such as the investee's liquidity, debt ratios and the rate at which the investee is using cash; and the investee's receipt of additional funding at a lower valuation. Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case the investment is written down to its estimated fair value. When an investee is not considered viable from a financial or technological point of view, the entire investment is written down, since the estimated fair market value is considered to be nominal. If an investee obtains additional funding at a valuation lower than Intel's carrying amount or requires a new round of equity funding to stay in operation, and the new funding does not appear imminent, it is presumed that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise. Impairment of non-marketable equity securities is recorded in gains (losses) on equity securities, net.

Securities Lending

From time to time, the company enters into securities lending agreements with financial institutions, generally to facilitate hedging transactions. Selected securities may be loaned, secured by collateral in the form of cash or securities. The loaned securities continue to be carried as investment assets on the balance sheet. Cash collateral is recorded as an asset with a corresponding liability. For lending agreements collateralized by securities, the collateral is not recorded as an asset or a liability, unless the collateral is repledged.

Fair Values of Financial Instruments

The carrying value of cash equivalents approximates fair value due to the short period of time to maturity. Fair values of short-term investments, trading assets, long-term investments, marketable strategic equity securities, certain non-marketable investments, short-term debt, long-term debt, swaps, currency forward contracts, currency options, equity options and warrants are based on quoted market prices or pricing models using current market data. Debt securities are generally valued using discounted cash flows in a yield-curve model based on LIBOR. Equity options and warrants are priced using a Black-Scholes option pricing model. For the company's portfolio of non-marketable equity securities, management believes that the carrying value of the portfolio approximates the fair value at December 25, 2004 and December 27, 2003. This estimate takes into account the market movements of the equity and venture capital markets over the last few years, the impairment analyses performed and the related impairments recorded during 2004 and 2003. All of the company's financial instruments are recorded at fair value except for non-marketable investments, including cost-basis loan participation notes and debt. Management believes that the differences between the estimated fair values and carrying values of these financial instruments were not significant at December 25, 2004 and December 27, 2003. Estimated fair values are management's estimates; however, when there is no readily available market, the estimated fair values may not necessarily represent the amounts that could be realized in a current transaction, and these fair values could change significantly.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

The company's primary objective for holding derivative financial instruments is to manage currency, interest rate and some equity market risks. The company's derivative instruments are recorded at fair value and are included in other current assets, other assets, other accrued liabilities or debt. Derivative instruments recorded as assets totaled $117 million at December 25, 2004 and $134 million at December 27, 2003. Derivative instruments recorded as liabilities totaled $179 million at December 25, 2004 and $178 million at December 27, 2003. The company's accounting policies for these instruments are based on whether they meet the company's criteria for designation as hedging transactions, either as cash flow or fair value hedges. A hedge of the exposure to variability in the cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A hedge of the exposure to changes in fair value of an asset or a liability, or of an unrecognized firm commitment, is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized currently in earnings, and generally offset changes in the values of related assets, liabilities or debt.

As part of its strategic investment program, the company also acquires equity derivative instruments, such as warrants and equity conversion rights associated with debt instruments, that are not designated as hedging instruments. The gains or losses from changes in fair values of these equity derivatives are recognized in gains (losses) on equity securities, net.

Currency Risk. The company transacts business in various currencies other than the U.S. dollar, primarily the Euro and certain other European and Asian currencies. The company has established balance sheet and forecasted transaction risk management programs to protect against fluctuations in fair value and volatility of future cash flows caused by changes in exchange rates. The forecasted transaction risk management program includes anticipated transactions such as operating costs and capital purchases. The company may use currency forward contracts, currency options, currency interest rate swaps, and currency investments and borrowings in these risk management programs. These programs reduce, but do not always entirely eliminate, the impact of currency exchange movements.

Currency forward contracts and currency options that are used to hedge exposures to variability in anticipated non-U.S.-dollar-denominated cash flows are designated as cash flow hedges. The maturities of these instruments are generally less than 12 months. For these derivatives, the gain or loss from the effective portion of the hedge is reported as a component of other comprehensive income in stockholders' equity and is reclassified into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction. The gain or loss from the ineffective portion of the hedge in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in interest and other, net during the period of change.

Currency interest rate swaps and currency forward contracts are used to offset the currency risk of non-U.S.-dollar-denominated debt securities classified as trading assets, as well as other assets and liabilities denominated in various currencies. The maturities of these instruments are generally less than 12 months, except for derivatives hedging equity investments, which are generally five years or less. Changes in fair value of the underlying assets and liabilities are generally offset by the changes in fair value of the related derivatives, with the resulting net gain or loss, if any, recorded in interest and other, net.

Interest Rate Risk. The company's primary objective for holding investments in debt securities is to preserve principal while maximizing yields, without significantly increasing risk. To achieve this objective, the returns on the company's investments in fixed-rate debt securities are generally swapped to U.S. dollar LIBOR-based returns, using interest rate swaps and currency interest rate swaps in transactions that are not designated as hedges for accounting purposes. The floating interest rates on the swaps are reset on a monthly, quarterly or semiannual basis. Changes in fair value of the debt securities classified as trading assets are generally offset by changes in fair value of the related derivatives, resulting in negligible net impact recorded in interest and other, net.

The company may also enter into interest rate swap agreements to modify the interest characteristics of a portion of its outstanding long-term debt. These transactions would likely be designated as fair value hedges. The gains or losses from the changes in fair value of the interest rate swaps, as well as the offsetting change in the hedged fair value of the long-term debt, would be recognized in interest expense.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity Market Risk. The company may enter into transactions designated as fair value hedges using equity options, swaps or forward contracts to hedge the equity market risk of marketable securities in its portfolio of strategic equity investments once the securities are no longer considered to have strategic value. The gain or loss from the change in fair value of these equity derivatives, as well as the offsetting change in hedged fair value of the underlying equity securities, are recognized currently in gains (losses) on equity securities, net. The company may use equity derivatives in transactions not designated as hedges to offset the change in fair value of certain equity securities classified as trading assets. The company may or may not enter into transactions to reduce or eliminate the market risks of its investments in strategic equity derivatives, including warrants.

Measurement of Effectiveness of Hedge Relationships. For currency forward contracts, effectiveness of the hedge is measured using spot rates for hedging strategies related to long-term capital purchases, and using forward rates for all other strategies, to value the forward contract and the underlying hedged transaction. For currency options and equity options accounted for as fair value hedges, effectiveness is measured by comparing the change in the option's intrinsic value (the difference between the spot price of the underlying hedged transaction and the option's strike price) to the value of the underlying hedged transaction determined based on spot rates. Changes in time value of these options are not included in the assessment of effectiveness. For currency options and equity options accounted for as cash flow hedges, effectiveness is measured by comparing the change in the fair market value of the option to the change in the fair value of the underlying hedged transaction. For interest rate swaps, effectiveness is measured by offsetting the change in fair value of the underlying hedged transaction with the change in fair value of the interest rate swap.

Any ineffective portion of the hedges, as well as amounts not included in the assessment of effectiveness, are recognized currently in interest and other, net or in gains (losses) on equity securities, net, depending on the nature of the underlying asset or liability. If a cash flow hedge were to be discontinued because it is probable that the original hedged transaction will not occur as anticipated, the unrealized gain or loss on the related derivative would be reclassified into earnings. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated or is sold.

For all periods presented, the portion of hedging instruments' gains or losses excluded from the assessment of effectiveness and the ineffective portions of hedges had an insignificant impact on earnings for both cash flow and fair value hedges. There was no significant impact on results of operations from discontinued cash flow hedges as a result of forecasted transactions that did not occur. For all periods presented, less than $15 million of deferred gains or losses were reclassified from accumulated other comprehensive income to depreciation expense related to the company's foreign currency capital purchase hedging program. The company estimates that less than $15 million of net derivative gains included in other comprehensive income or capitalized in property, plant and equipment will be reclassified into earnings within the next 12 months.

Inventories

Inventory cost is computed on a currently adjusted standard basis (which approximates actual cost on an average or first-in, first-out basis). Inventory is determined to be saleable based on a demand forecast within a specific time horizon, generally six months or less. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market. Inventories at fiscal year-ends were as follows:

(In Millions)	2004	2003
Raw materials	$ 388	$ 333
Work in process	1,418	1,490
Finished goods	815	696
Total inventories	**$ 2,621**	**$ 2,519**

Property, Plant and Equipment

Property, plant and equipment, net at fiscal year-ends was as follows:

(In Millions)	2004	2003
Land and buildings	$ 13,277	$ 12,651
Machinery and equipment	24,561	24,233
Construction in progress	1,995	1,808
	39,833	38,692
Less accumulated depreciation	(24,065)	(22,031)
Total property, plant and equipment, net	**$ 15,768**	**$ 16,661**

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, plant and equipment is stated at cost. Depreciation is computed for financial reporting purposes principally using the straight-line method over the following estimated useful lives: machinery and equipment, 2–4 years; buildings, 4–40 years. Reviews are regularly performed to determine whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable or that the useful life is shorter than originally estimated. The company assesses the recoverability of its assets held for use by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets (see "Note 16: Impairment of Long-Lived Assets"). If assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the net book value of the assets is depreciated over the newly determined remaining useful lives.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. The company performs an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. In determining the carrying value of the reporting unit, an allocation of the company's manufacturing and assembly and test assets must be made because of the interchangeable nature of the company's manufacturing and assembly and test capacity. This allocation is based on each reporting unit's relative percentage utilization of the manufacturing and assembly and test assets (see "Note 14: Goodwill").

Identified Intangible Assets

Acquisition-related intangibles include developed technology, trademarks and customer lists, and are amortized on a straight-line basis over periods ranging from 2–6 years. Also included in acquisition-related intangibles is workforce-in-place related to acquisitions that did not qualify as business combinations. Intellectual property assets primarily represent rights acquired under technology licenses and are amortized over the periods of benefit, ranging from 2–10 years, generally on a straight-line basis. All identified intangible assets are classified within other assets on the balance sheet. In the quarter following the period in which identified intangible assets become fully amortized, the fully amortized balances are removed from the gross asset and accumulated amortization amounts.

The company performs a quarterly review of its identified intangible assets to determine if facts and circumstances exist which indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances do exist, the company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Product Warranty

The company generally sells products with a limited warranty of product quality and a limited indemnification of customers against intellectual property infringement claims related to the company's products. The company accrues for known warranty and indemnification issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity. The accrual and the related expense for known issues were not significant during the periods presented. Due to product testing and the short time between product shipment and the detection and correction of product failures, and considering the historical rate of payments on indemnification claims, the accrual and related expense for estimated incurred but unidentified issues were not significant during the periods presented.

Revenue Recognition

The company recognizes net revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance, if applicable, as well as fixed pricing and probable collectibility. Because of frequent sales price reductions and rapid technology obsolescence in the industry, sales made to distributors under agreements allowing price protection and/or right of return are deferred until the distributors sell the merchandise. Shipping charges billed to customers are included in net revenue, and the related shipping costs are included in cost of sales.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Advertising

Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenue is recognized. All other advertising costs are expensed as incurred. Cooperative advertising expenses are recorded as marketing, general and administrative expense to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. Any excess of cash paid over the fair value of the advertising benefit received is recorded as a reduction in revenue. Advertising expense was $2.1 billion in 2004 ($1.8 billion in 2003 and $1.7 billion in 2002).

Employee Equity Incentive Plans

The company has employee equity incentive plans, which are described more fully in "Note 11: Employee Equity Incentive Plans." Intel accounts for its equity incentive plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The exercise price of options is equal to the market price of Intel common stock (defined as the average of the high and low trading prices reported by The NASDAQ Stock Market*) on the date of grant. Accordingly, no stock-based compensation, other than acquisition-related compensation, is recognized in net income. The following table illustrates the effect on net income and earnings per share as if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended, to options granted under the stock option plans and rights to acquire stock granted under the company's Stock Participation Plan, collectively called "options." For purposes of this pro-forma disclosure, the value of the options is estimated using a Black-Scholes option pricing model and amortized ratably to expense over the options' vesting periods. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different.

(In Millions—Except Per Share Amounts)	2004	2003	2002
Net income, as reported	$7,516	$5,641	$3,117
Less: total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	1,271	991	1,170
Pro-forma net income	$6,245	$4,650	$1,947
Reported basic earnings per common share	$ 1.17	$ 0.86	$ 0.47
Pro-forma basic earnings per common share	$ 0.98	$ 0.71	$ 0.29
Reported diluted earnings per common share	$ 1.16	$ 0.85	$ 0.46
Pro-forma diluted earnings per common share	$ 0.97	$ 0.71	$ 0.29

It is the company's policy under SFAS No. 123 to periodically make adjustments to pro-forma compensation expense to reflect forfeitures. Based on recent forfeiture data, the company recognized additional pro-forma compensation expense and related tax effects totaling $58 million in 2004. The company reversed previously recognized pro-forma compensation expense and related tax effects totaling $190 million in 2003 and $87 million in 2002.

SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-lived exchange-traded options that have no vesting restrictions and are fully transferable. The company's employee stock options have characteristics significantly different from those of traded options. In addition, option pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted average estimated value of employee stock options granted during 2004 was $10.79 ($9.02 in 2003 and $10.89 in 2002). The value of options granted in 2004, 2003 and 2002 was estimated at the date of grant using the following weighted average assumptions:

	2004	2003	2002
Expected life (in years)	4.2	4.4	6.0
Risk-free interest rate	3.0%	2.2%	3.7%
Volatility	.50	.54	.49
Dividend yield	.6%	.4%	.3%

An analysis of historical information is used to determine the company's assumptions, to the extent that historical information is relevant based on the terms of the grants being issued in any given period. Options granted in 2004 and 2003 generally vest over four years, while options granted during 2002 generally vest five years from the date of grant.

Under the Stock Participation Plan, rights to purchase shares are granted during the first and third quarter of each year only. The estimated weighted average value of rights granted under the Stock Participation Plan during 2004 was $6.38 ($5.65 during 2003 and $7.23 in 2002). The value of rights granted during 2004, 2003 and 2002 was estimated at the date of grant using the following weighted average assumptions:

	2004	2003	2002
Expected life (in years)	.5	.5	.5
Risk-free interest rate	1.4%	1.1%	1.8%
Volatility	.30	.50	.50
Dividend yield	.6%	.4%	.3%

Recent Accounting Pronouncements

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Issue's objective is to provide guidance for identifying other-than-temporarily impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until further notice. The disclosure requirements of EITF 03-1 are effective with this annual report for fiscal 2004. Once the FASB reaches a final decision on the measurement and recognition provisions, the company will evaluate the impact of the adoption of the accounting provisions of EITF 03-1.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25, and allowed under the original provisions of SFAS No. 123. SFAS No. 123R requires the use of an option pricing model for estimating fair value, which is amortized to expense over the service periods. The requirements of SFAS No. 123R are effective for fiscal periods beginning after June 15, 2005. If the company had applied the provisions of SFAS No. 123R to the financial statements for the period ending December 25, 2004, net income would have been reduced by approximately $1.3 billion. SFAS No. 123R allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No. 123 or only to interim periods in the year of adoption. The company is currently evaluating these transition methods.

Note 3: Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share were as follows:

(In Millions)	2004	2003	2002
Weighted average common shares outstanding	**6,400**	**6,527**	**6,651**
Dilutive effect of employee stock options	94	94	108
Weighted average common shares outstanding, assuming dilution	**6,494**	**6,621**	**6,759**

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Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. For 2004, approximately 357 million of the company's stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive (418 million in 2003 and 387 million in 2002). These options could be dilutive in the future if the average share price increases and is greater than the exercise price of these options.

Note 4: Common Stock Repurchase Program

The company has an ongoing authorization, as amended, from the Board of Directors to repurchase up to 2.8 billion shares of Intel's common stock in open market or negotiated transactions, including the 2004 authorization to purchase an additional 500 million shares. During 2004, the company repurchased 301 million shares of common stock at a cost of $7.5 billion (176 million shares at a cost of $4.0 billion during 2003, and 183 million shares at a cost of $4.0 billion during 2002). Since the program began in 1990, the company has repurchased and retired approximately 2.2 billion shares at a cost of approximately $42 billion. As of December 25, 2004, approximately 614 million shares remained available for repurchase under the existing repurchase authorization.

Note 5: Borrowings

Short-Term Debt

Short-term debt included non-interest-bearing drafts payable of $168 million and the current portion of long-term debt of $33 million as of December 25, 2004 (drafts payable of $143 million and the current portion of long-term debt of $81 million as of December 27, 2003). The company also borrows under a commercial paper program. Maximum borrowings under the company's commercial paper program reached $550 million during 2004 and $30 million during 2003, and did not exceed authorized borrowings of $3.0 billion. No commercial paper was outstanding as of December 25, 2004 or December 27, 2003. The company's commercial paper is rated A-1+ by Standard & Poor's and P-1 by Moody's.

Long-Term Debt

Long-term debt at fiscal year-ends was as follows:

(In Millions)	2004	2003
Payable in U.S. dollars:		
Zero coupon senior exchangeable notes due 2004	$ —	$ 41
Other debt	1	1
Payable in other currencies:		
Euro debt due 2005–2018 at 1.5%–11%	735	975
	736	1,017
Less current portion of long-term debt	(33)	(81)
Total long-term debt	**$ 703**	**$ 936**

During 2001, the company issued zero coupon senior exchangeable notes (Intel notes) in order to partially mitigate the equity market risk of Intel's investment in Samsung Electronics Co., Ltd. convertible notes. The exchange option was accounted for as an equity derivative and marked-to-market with the fair value recorded in long-term debt. The Intel notes matured in February 2004.

The Euro borrowings were made in connection with the financing of manufacturing facilities and equipment in Ireland, and Intel has invested the proceeds in Euro-denominated loan participation notes of similar maturity to hedge currency and interest rate exposures. During 2004, the company retired $273 million of the Euro borrowings prior to their maturity dates through the simultaneous settlement of an equivalent amount of investments in loan participation notes (see "Note 8: Interest and Other, Net").

As of December 25, 2004, aggregate debt maturities were as follows: 2005—$33 million; 2006—$39 million; 2007—$41 million; 2008—$128 million; 2009—$43 million; and thereafter—$452 million.

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Note 6: Investments

Trading Assets

Trading assets outstanding at fiscal year-ends were as follows:

(In Millions)	2004 Net Unrealized Gains	2004 Estimated Fair Value	2003 Net Unrealized Gains	2003 Estimated Fair Value
Debt instruments	$ 187	$ 2,772	$ 174	$ 2,321
Equity securities offsetting deferred compensation	81	339	60	304
Total trading assets	**$ 268**	**$ 3,111**	**$ 234**	**$ 2,625**

Net holding gains on fixed income debt instruments classified as trading assets were $80 million in 2004, $208 million in 2003 and $79 million in 2002. Net holding losses on the related derivatives were $(77) million in 2004, $(192) million in 2003 and $(75) million in 2002. These amounts were included in interest and other, net in the consolidated statements of income.

Certain equity securities within the trading asset portfolio are maintained to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. These deferred compensation liabilities were $458 million in 2004 and $427 million in 2003, and are included in other accrued liabilities on the consolidated balance sheets. Net holding gains (losses) on equity securities offsetting deferred compensation arrangements were $29 million in 2004, $52 million in 2003 and $(64) million in 2002, and were included within interest and other, net in the consolidated statements of income.

Prior to 2004, the company held certain other marketable equity securities which were included in trading assets. Net holding gains on these equity security trading assets were $77 million in 2003 and $57 million in 2002. The $57 million net gain in 2002 included a gain of $120 million that resulted from the designation of formerly restricted equity investments as trading assets as they became marketable. The cumulative difference between their cost and fair market value at the time they became marketable was recorded as a gain in 2002. Net holding gains (losses) on the related derivatives were $(84) million in 2003 and $110 million in 2002. These gains and losses were included within losses on equity securities, net in the consolidated statements of income.

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Available-for-Sale Investments

Available-for-sale investments at December 25, 2004 were as follows:

(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 9,024	$ —	$ (4)	$ 9,020
Floating rate notes	3,419	—	(1)	3,418
Bank time deposits	1,936	—	—	1,936
Corporate bonds	794	—	—	794
Marketable strategic equity securities	589	118	(51)	656
Preferred stock and other equity	200	—	—	200
Other debt securities	234	—	—	234
Total available-for-sale investments	**$ 16,196**	**$ 118**	**$ (56)**	**$ 16,258**

	Carrying Amount
Available-for-sale investments	$ 16,258
Cost basis investments in loan participation notes	723
Cash on hand	299
Total	**$ 17,280**
Reported as:	
Cash and cash equivalents	$ 8,407
Short-term investments	5,654
Marketable strategic equity investments	656
Other long-term investments	2,563
Total	**$ 17,280**

Available-for-sale investments at December 27, 2003 were as follows:

(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 9,948	$ —	$ (1)	$ 9,947
Bank time deposits	1,900	—	—	1,900
Floating rate notes	1,078	—	—	1,078
Corporate bonds	703	—	—	703
Marketable strategic equity securities	467	47	—	514
Preferred stock and other equity	224	9	—	233
Other debt securities	352	—	—	352
Total available-for-sale investments	**$ 14,672**	**$ 56**	**$ (1)**	**$ 14,727**

	Carrying Amount
Available-for-sale investments	$ 14,727
Cost basis investments in loan participation notes	985
Cash on hand	207
Total	**$ 15,919**
Reported as:	
Cash and cash equivalents	$ 7,971
Short-term investments	5,568
Marketable strategic equity investments	514
Other long-term investments	1,866
Total	**$ 15,919**

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The duration of the unrealized losses on available-for-sale investments at December 25, 2004 did not exceed 12 months. The company's unrealized losses of $51 million on investments in marketable strategic equity securities at December 25, 2004 related primarily to a $450 million investment in Micron Technology, Inc. The unrealized losses were due to market-price movements. Management does not believe that any of the unrealized losses represented an other-than-temporary impairment based on its evaluation of available evidence as of December 25, 2004.

The company sold available-for-sale securities, primarily equity securities, with a fair value at the date of sale of $85 million in 2004, $39 million in 2003 and $114 million in 2002. The gross realized gains on these sales totaled $52 million in 2004, $16 million in 2003 and $15 million in 2002. The company recognized impairment losses on available-for-sale and non-marketable investments of $117 million in 2004, $319 million in 2003 and $524 million in 2002.

The amortized cost and estimated fair value of available-for-sale and loan participation investments in debt securities at December 25, 2004, by contractual maturity, were as follows:

(In Millions)	Cost	Estimated Fair Value
Due in 1 year or less	$ 13,667	$ 13,662
Due in 1–2 years	1,375	1,375
Due in 2–5 years	646	646
Due after 5 years	442	442
Total	**$ 16,130**	**$ 16,125**

Note 7: Concentrations of Credit Risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of investments in debt securities, derivative financial instruments and trade receivables.

Intel generally places its investments with high-credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on Intel's analysis of that counterparty's relative credit standing. Investments in debt securities with original maturities of greater than six months consist primarily of A and A2 or better rated financial instruments and counterparties. Investments with original maturities of up to six months consist primarily of A-1 and P-1 or better rated financial instruments and counterparties. Government regulations imposed on investment alternatives of Intel's non-U.S. subsidiaries, or the absence of A and A2 rated counterparties in certain countries, result in some minor exceptions, which are reviewed and approved annually by the Finance Committee of the Board of Directors. Credit rating criteria for derivative instruments are similar to those for investments. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty's obligations exceed the obligations of Intel with that counterparty. At December 25, 2004, the total credit exposure to any single counterparty did not exceed $350 million. Intel's practice is to obtain and secure available collateral from counterparties against obligations, including securities lending transactions, whenever Intel deems appropriate.

A majority of the company's trade receivables are derived from sales to original equipment manufacturers and original design manufacturers of computer systems, cellular handsets and handheld computing devices, and networking and communications equipment. The company also has accounts receivable derived from sales to industrial and retail distributors. The company's three largest customers accounted for approximately 42% of net revenue for 2004 and 2003 (38% of net revenue for 2002). At December 25, 2004, the three largest customers accounted for approximately 45% of net accounts receivable (43% of net accounts receivable at December 27, 2003). Management believes that the receivable balances from these largest customers do not represent a significant credit risk based on cash flow forecast, balance sheet analysis and past collection experience.

The company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the financial stability of the company's end customers and the diverse geographic sales areas. To assess the credit risk of counterparties, a quantitative and qualitative analysis is performed. From this analysis, credit limits are established and a determination is made whether one or more credit support devices, such as obtaining some form of third-party guarantee or standby letter of credit, or obtaining credit insurance for all or a portion of the account balance, is necessary.